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RECEIVED

PUBLIC SERVICE
COMMISSION

ROBERT M. WATT, III
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February 10, 2006

Hon. Elizabeth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Case 2006-00055

Re: Delta Natural Gas Company, Inc.

Dear Ms. O'Donnell:

We enclose for filing an original and ten copies of the Application of Delta Natural Gas Company, Inc. for an order authorizing the issuance of up to \$40,000,000 of long-term debt. Delta would very much appreciate the Commission's expediting the issuance of an order in this matter as it would like to close this financing by March 21, 2006. Delta estimates that if it can close the financing promptly, it will realize annual savings of approximately \$300,000 in interest expense. Thus, Delta requests that the Commission issue its order approving this financing by February 21, 2006, if possible. Thank you for your attention to this matter.

Sincerely,

Robert M. Watt, III

Rmw
Encl.

Cc: Mr. John F. Hall (w/encl.)
Elizabeth E. Blackford, Esq. (w/encl.)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 10 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR AN ORDER)
AUTHORIZING THE ISSUANCE OF UP TO)
\$40,000,000 OF LONG-TERM DEBT)

CASE NO. 2006-00055

* * * * *

APPLICATION

Delta Natural Gas Company, Inc. ("Delta"), pursuant to KRS 278.300 and 807 KAR 5:001, Section 11, respectfully submits its application herein as follows, to-wit:

(1) Delta is a Kentucky corporation with its post office address, principal office and place of business located at 3617 Lexington Road, Winchester, Kentucky 40391. Delta's full name is Delta Natural Gas Company, Inc.

(2) A certified copy of Delta's most recent Amended and Restated Articles of Incorporation has heretofore been filed with this Commission in connection with a prior proceeding of Delta, same being Case No. 2004-00067, *In the Matter of: Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*, filed on April 5, 2004.

(3) Delta is a utility engaged in the natural gas business. Delta purchases, stores and transports natural gas in Bath, Estill, Montgomery, Menifee, Madison, Powell, Garrard, Jackson, Lee, Bourbon, Jessamine, Rowan, Bell, Knox, Whitley, Laurel, Clay, Leslie, Fayette, Fleming, Clark, Robertson and Mason Counties, Kentucky.

(4) As of December 31, 2005 in order to serve its customers, Delta owned approximately 2,450 miles of gas gathering, transmission, distribution and service lines ranging in size from one (1) inch to twelve (12) inches, compressor stations, storage wells, gas mixing equipment, regulating equipment, metering equipment, transportation equipment, maintenance equipment, communications equipment, data processing equipment, land and land rights. As of December 31, 2005 the original cost to Delta of its property was \$164,039,791 as shown on Exhibit A attached hereto.

(5) Delta desires to issue up to approximately \$40,000,000 of long-term debt in accordance with the proposal in Exhibit B. The final determination of such amount will depend upon the markets for such securities at the time of issuance.

(6) That the proceeds from the proposed issuance of long-term debt will be used to refinance Delta's 7.15% Debentures, Delta's 6.625% Debentures and a portion of Delta's existing variable rate short-term bank debt. See pages 2 and 4 of Exhibit C hereto for a more particular description of the 7.15% Debentures, the 6.625% Debentures and of the variable rate short-term bank loan. The existing short-term bank loan was used to finance capital expenditures and for general corporate purposes.

(7) There is attached hereto as Exhibit C the financial exhibit of Delta as of December 31, 2005, required by 807 KAR 5:001, Sections 6 and 11, showing (1) the amounts and kinds of stock authorized; (2) the amounts and kinds of stock issued and outstanding; (3) terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise; (4) brief description of each

mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions; (5) amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with amount of interest paid thereon during the last fiscal year; (6) each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year; (7) other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year; (8) rate and amount of dividends paid during the five previous fiscal years, and the amount of capital stock on which dividends were paid each year; and (9) detailed income statement and balance sheet.

(8) The issuance of the long-term debt described herein is for lawful objects within the corporate purposes of Delta and is necessary, appropriate for and consistent with the proper performance by Delta of its service to the public and will not impair its ability to perform that service and is reasonably necessary and appropriate for such purpose.

(9) Communications related to this proceeding should be directed to:

John F. Hall
Vice President – Finance,
Secretary and Treasurer
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Robert M. Watt III
Stoll Keenon Ogden PLLC
300 West Vine Street – Suite 2100
Lexington, KY 40507

WHEREFORE, Delta Natural Gas Company, Inc. respectfully prays that the Public Service Commission enter its Order authorizing Delta to issue \$40,000,000 of long-term debt and for any all other relief to which it may appear entitled. For the existing 7.15% Debentures and 6.625% Debentures, Delta requests that it be allowed to amortize any remaining unamortized debt expense over the life of any new or replacement long-term debt.

Respectfully submitted,

DELTA NATURAL GAS COMPANY, INC.

BY:



John F. Hall
Vice President - Finance, Secretary and
Treasurer

Subscribed and sworn to before me by John F. Hall on the 9th day of February, 2006.

My Commission Expires: July 11, 2008.

Nonna Fuller
Notary Public, State at Large, Kentucky

CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading has been served by mailing a copy of same, postage prepaid, to the following person on this 10th day of February 2006:

Elizabeth E. Blackford, Esq.
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

Robert Ware
Counsel for Applicant

DELTA NATURAL GAS COMPANY, INC.

**DESCRIPTION OF PROPERTY AND ORIGINAL COST
DECEMBER 31, 2005**

INTANGIBLE PLANT

Organization	\$	53,151
Franchise		0

PRODUCTION PLANT

Production Land		0
Production Structures		0
Gas Mixing Equipment		7,795
Land & Land Rights		75,987
Compressor Stations & Structures		859,374
Measuring & Regulating Equipment		115,705
Field Line – Gathering		1,904,405

STORAGE & PROCESSING PLANT

Storage Land		14,142
Storage Right-Of-Way		177,425
Gas Rights Wells		1,495
Gas Rights Storage		0
Storage Structures & Improvements		294,116
Storage Wells		360,583
Storage Rights		860,396
Storage Reservoirs		1,881,731
Nonrecoverable Natural Gas		294,307
Storage Lines		5,091,297
Storage Compressor Station Equipment		2,419,643
Storage Measuring & Regulating Equipment		361,994
Purification Equipment		360,432
Storage Other Equipment		47,209

TRANSMISSION PLANT

Land & Land Rights		1,246,299
Right-Of-Way		163,626
Structures & Improvements		152,933
Mains		37,761,179
Compressor Station & Equipment		1,654,878
Regulating Equipment		2,476,004
Other Equipment		612,239

DESCRIPTION OF PROPERTY AND ORIGINAL COST
December 31, 2005

DISTRIBUTION PLANT

Land & Land Rights	256,660
Structure & Improvements	120,798
Mains	60,131,148
Regulating Equipment – General	1,339,068
Regulating Equipment – City Gate	468,714
Services	1,216,900
Meter & House Regulators	10,528,199
Meter & House Regulator Installations	3,075,067
Industrial Regulating Station Equipment	1,481,607

GENERAL PLANT

Land & Land Rights	1,038,741
Structure & Improvements	5,419,545
Office Furniture & Equipment	360,116
Transportation Equipment	3,772,302
Tools, Shop & Garage Equipment	1,108,874
Laboratory Equipment	185,069
Power Operated Equipment	2,731,664
Communications Equipment	542,602
Miscellaneous Equipment	94,395
Other Tangible Property	3,547,129

GAS STORED UNDERGROUND 4,208,069

CONSTRUCTION WORK IN PROGRESS 3,745,537

PLANT ACQUISITION ADJUSTMENT (580,759)

\$ 164,039,791

Delta Natural Gas Company, Inc.
\$38,000,000
Insured Quarterly Notes (IQ NotesSM)

Summary of Terms

Size:	\$38,000,000
Denomination:	\$1,000
Maturity:	April 1, 2021
Interest Payments:	January 1, April 1, July 1, and October 1, beginning on July 1, 2006
Call Option:	In full or in part anytime at par (100%) on or after April 1, 2009
Estate Feature:	Subject to the following annual limits: * \$25,000 per holder * \$760,000 in the aggregate
Rating:	Aaa/AAA
Bond Insurer:	AMBAC Assurance Co.
Registration:	Book entry
Offering Price:	100.00%
Underwriting Fee:	2.40%
Price to Company:	97.60%
Proceeds to Company:	\$37,088,000
Anticipated Pricing Date:	March 16, 2006
Anticipated Settlement Date:	March 21, 2006
Estimated Coupon:	5.55%*
Benchmark Treasury:	4.50% due 2/16
Benchmark Yield:	4.55% (as of 2/09/06)
Spread to Treasury:	+ 100 bps *

Note: The spread quoted is based on current market conditions. The actual spread may be adjusted as required by market conditions at the time the offering is priced.

Edward Jones

DELTA NATURAL GAS COMPANY, INC.

**AMOUNT AND KINDS OF STOCK AUTHORIZED,
ISSUED AND OUTSTANDING
DECEMBER 31, 2005**

Common Stock, par value \$1.00 per share	--	Authorized - 6,000,000 shares Issued and Outstanding - 3,242,502 shares
Cumulative Preferred	--	Authorized - 312,500 shares Issued and Outstanding - 0

DELTA NATURAL GAS COMPANY, INC.**LONG-TERM DEBT OUTSTANDING
AND MORTGAGE DESCRIPTIONS
DECEMBER 31, 2005**

There are no mortgages outstanding.

The following long-term debts are in existence:

- (1) On October 18, 1993, as authorized by Delta's Board of Directors and approved by an Order of the Kentucky Public Service Commission, Delta issued \$15,000,000 of unsecured 6-5/8% Debentures that mature in October 2023. The proceeds were used to repay short-term debt. Each holder may require redemption of up to \$25,000 of the 6-5/8% Debentures annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within sixty days of notice, subject to the annual aggregate \$500,000 limitation. The 6-5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceased in October 2003. Restrictions under the indenture agreement covering the 6-5/8% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the company exceeds \$12 million. Interest paid during the twelve months ending December 31, 2005 was \$704,304. At December 31, 2005 there was \$444,080 of unamortized debt expense associated with these debentures. JP Morgan Chase Bank is the Trustee and interest-paying agent for these debentures. The balance at December 31, 2005 was \$10,170,000.
- (2) On March 27, 1998, as authorized by Delta's Board of Directors and approved by an Order of the Kentucky Public Service Commission, Delta issued \$25,000,000 of unsecured 7.15% Debentures that mature in April 2018. The proceeds were used to repay short-term debt and to redeem the Company's 9% Debentures that would have matured in 2011, in the amount of \$10,000,000. Commencing in April 1999, each holder may require redemption of up to \$25,000 of the 7.15% Debentures annually, subject to an annual aggregate limitation of \$750,000. Such redemption will also be made on behalf of deceased holders within sixty days of notice, subject to the annual aggregate \$750,000 limitation. The Company can redeem the 7.15% Debentures after April 1, 2003. Restrictions under the indenture agreement covering the 7.15% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$21,500,000. Interest paid

during the twelve months ending December 31, 2005 was \$1,699,817. At December 31, 2005 there was \$509,106 of unamortized debt associated with these debentures. The Bank of New York is the Trustee and interest-paying agent for these debentures. The balance at December 31, 2005 was \$23,681,000.

- (3) On February 18, 2003, as authorized by Delta's Board of Directors and approved by an Order of the Kentucky Public Service Commission, Delta issued \$20,000,000 of unsecured 7.0% Debentures that mature in February, 2023. The proceeds were used to repay short-term debt and to redeem the Company's 8.3% Debentures that would have matured in 2026, in the amount of \$14,806,000. Commencing in February 2004, each holder may require redemption of up to \$25,000 of 7.0% Debentures annually, subject to an annual aggregate limitation of \$400,000. Such redemption will also be made on behalf of deceased holders within sixty days of notice, subject to the annual aggregate \$400,000 limitation. The Company can redeem the 7.0% Debentures after February 1, 2007. If the Company elects to redeem Debentures in the first year after February 1, 2007, it must pay 102% of the principal value of the Debentures. If the Company elects to redeem the Debentures during the next year, it must pay 101% of the principal value of the Debentures. After February 1, 2009 redemption of Debentures will be at 100% of their principal value. Restrictions under the indenture agreement covering the 7.0% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$25,800,000. Interest paid during the twelve months ending December 31, 2005 was \$1,400,056. At December 31, 2005 that was \$696,228 of unamortized debt associated with these debentures. The Bank of New York is the Trustee and interest-paying agent for these debentures. The balance at December 31, 2005 was \$19,990,000.

DELTA NATURAL GAS COMPANY, INC.

**SHORT-TERM DEBT OUTSTANDING
DECEMBER 31, 2005**

Delta had outstanding at December 31, 2005 short-term debt as follows:

<u>LENDER</u>	<u>DUE DATE</u>	<u>RATE</u>	<u>AMOUNT</u>
Branch Banking and Trust Company (BB&T)	Demand ⁽¹⁾	5.31120% ⁽²⁾	\$32,034,527.29

Short-term interest paid in the 12 months ended December 31, 2005 was \$583,659.50

⁽¹⁾ This is a demand grid note dated October 31, 2005 with a maturity date of October 31, 2007. It can be increased or decreased daily up to a maximum of \$40,000,000.

⁽²⁾ The interest on this line is determined monthly at the thirty-day LIBOR Rate plus 1% on the used line of credit. The cost of the unused line of credit is 0.125%.

DELTA NATURAL GAS COMPANY, INC.

OTHER INDEBTEDNESS

DECEMBER 31, 2005

There is no other indebtedness outstanding.

DELTA NATURAL GAS COMPANY, INC.

**DIVIDENDS FOR LAST FIVE YEARS
DECEMBER 31, 2005**

<u>MONTH AND YEAR PAID</u>	<u>RATE</u>	<u>ON SHARES OR VALUE</u>	<u>PAR VALUE</u>	<u>DIVIDEND AMOUNT</u>
March 2001	.285	2,482,244	2,482,244	\$707,440
June 2001	.285	2,490,404	2,490,404	\$709,766
September 2001	.290	2,503,083	2,503,083	\$725,895
December 2001	.290	2,510,443	2,510,443	\$728,028
March 2002	.290	2,518,193	2,518,193	\$730,275
June 2002	.290	2,524,911	2,524,911	\$732,221
September 2002	.295	2,538,845	2,538,845	\$748,958
December 2002	.295	2,546,528	2,546,528	\$751,224
March 2003	.295	2,553,383	2,553,383	\$730,275
June 2003	.295	3,160,924	3,160,924	\$932,473
September 2003	.295	3,174,630	3,174,630	\$936,516
December 2003	.295	3,180,765	3,180,765	\$938,326
March 2004	.295	3,189,925	3,189,925	\$941,028
June 2004	.295	3,196,200	3,196,200	\$942,879
September 2004	.295	3,207,945	3,207,945	\$946,344
December 2004	.295	3,213,869	3,213,869	\$948,091
March 2005	.295	3,219,699	3,219,699	\$949,811
June 2005	.295	3,225,683	3,225,683	\$951,576
September 2005	.300	3,233,301	3,233,301	\$969,990
December 2005	.300	3,238,345	3,238,345	\$971,504

DELTA NATURAL GAS COMPANY, INC.

**STATEMENT OF INCOME
12 MONTHS ENDED DECEMBER 31, 2005**

OPERATING REVENUES	<u>\$62,682,263</u>
OPERATING EXPENSES AND TAXES	
Gas Purchased	\$35,650,664
Operations	11,428,619
Maintenance	611,279
Depreciation	3,988,963
Property & Other Taxes	1,675,149
Income Taxes	<u>1,806,800</u>
Total	<u>\$55,161,474</u>
Operating Income	\$ 7,520,789
OTHER INCOME/(EXPENSES), NET	<u>2,763,573</u>
INCOME BEFORE INTEREST CHARGES	<u>\$10,284,362</u>
INTEREST CHARGES	
Interest	\$ 4,399,166
Amortization	<u>236,184</u>
Total	\$ 4,635,350
NET INCOME	<u>\$ 5,649,012</u>

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
12 MONTHS ENDED DECEMBER 31, 2005

ASSETS

Gas Utility Plant, at Cost	\$	176,401,779
Less - Reserve for Depreciation		<u>58,481,386</u>
Net Gas Plant	\$	<u>234,883,165</u>
Current Assets		
Cash	\$	421,531
Receivables		17,361,522
Deferred Gas Cost		7,363,944
Gas in Storage, at Average Cost		12,277,340
Materials and Supplies, at first-in, first-out cost		479,579
Prepayments		<u>2,772,907</u>
Total Current Assets	\$	<u>40,676,823</u>
Other Assets		
Cash Surrender Value of Life Insurance	\$	387,193
Unamortized Expenses		3,712,703
Receivable/Investment in Subsidiaries		5,571,056
Other		<u>3,166,173</u>
Total Other Assets	\$	<u>12,837,125</u>
TOTAL ASSETS	\$	<u>171,434,341</u>

LIABILITIES

Capitalization		
Common Shareholders' Equity	\$	51,524,275
Long-Term Debt		<u>52,191,000</u>
Total Capitalization	\$	<u>103,715,275</u>
Current Liabilities		
Notes Payable	\$	32,034,527
Long-Term Debt Due Within One Year		1,650,000
Accounts Payable		7,480,766
Customers' Deposits		585,659
Purchased Gas Refund Payable to Customers		174
Accrued Taxes		849,873
Accrued Interest		888,380
Current Deferred Income Taxes		999,700
Other		<u>987,485</u>
Total Current Liabilities	\$	<u>45,476,564</u>
Deferred Credits & Others		
Deferred Income Taxes	\$	19,198,351
Investment Tax Credit		269,400
Regulatory Items		2,544,875
Advances for Construction		<u>229,876</u>
Total Deferred Credits and Other	\$	<u>22,242,502</u>
TOTAL LIABILITIES	\$	<u>171,434,341</u>